

**Statement of
Carl Kuehne, President
American Foods Group**

**Before the
House Committee on Agriculture**

March 1, 2005

Mr. Chairman and members of the committee, thank you for the opportunity to testify today. My name is Carl Kuehne and I am the owner and chief executive officer of American Foods Group, with headquarters in Green Bay, Wisconsin. My company is also a member of an ad hoc coalition called the Meat Equity Alliance for Trade Fairness. MEAT Fairness comprises 13 smaller and mid-size companies who harvest older cattle and therefore are directly affected by the import regulation of over-thirty-month (OTM) cattle and the meat from those same animals.

Like the other members of the MEAT Fairness coalition, my company favors an open border with Canada. The importance of trade to the entire beef industry has grown in recent decades, and one of the fruits of past trade agreements has been the development of a North American market where cattle and beef have moved freely across borders in response to market-based signals.

A primary goal that we all share is to maintain consumer confidence in our beef products. Consumers have reacted to the North American BSE cases by demonstrating with their pocketbooks that they retain confidence in our food safety system and our industry's ability to deliver a safe product. Our government must continue to maintain the consumer's confidence by basing its actions on science, not emotion or fear.

I mentioned that my segment of the meat industry favors an open border. When the border is not open, we feel the consequences acutely. Like other firms who harvest older cattle, we have already been adversely affected by the inability to procure Canadian cattle. We believe the available scientific evidence supports the designation of Canada as a minimal-risk country for BSE, and normal trade should be resumed as soon as possible. We believe Canada's rules and procedures are consistent with guidelines of the World Animal Health Organization (OIE), and this compliance with international standards provides additional confidence in Canada's minimal-risk status.

Of course, it is critical that trade be resumed in a rational rather than an irrational fashion. Like many others throughout the U.S. industry, we were troubled by the U.S. Department of Agriculture's final rule when it was published on January 4, since it permitted imports of OTM beef but not OTM cattle. That dichotomy would create a

perverse but powerful incentive to harvest OTM cattle in Canada rather than the United States, to the significant economic detriment of U.S. packers and producers alike.

We appreciate Secretary Johanns's action to temporarily delay the effective date of that portion of the rule that would have permitted OTM beef. Likewise, we feel it is now critically important to move forward without delay to create a regulatory structure that will allow *both* OTM cattle and OTM beef to enter the United States at the same time.

USDA has extensively studied the risks posed by minimal-risk regions like Canada. This exhaustive scientific work shows that Canadian beef and cattle are safe. Both the United States and Canada have implemented a series of safeguards to minimize the risk of BSE in cattle, the most important being the implementation of feed bans in 1997 and provisions governing the removal and disposition of specified risk materials (SRMs). When the border is re-opened, we can begin to restore equilibrium to a market that has been in turmoil since May 2003, when the discovery of a BSE-positive Canadian cow led to closure of the border.

Secretary Johanns acted appropriately in delaying implementation of the rule with respect to OTM beef imports. In light of the discovery of two BSE-infected cows in Canada after the final rule was published, it is certainly prudent to complete investigations into these cases and assess the adequacy of Canada's feed ban and other protective measures. Once that assessment is completed, the Department should move as expeditiously as possible to re-open the border to all cattle and beef.

Had it remained in place, the disparate treatment of OTM cattle and beef would have had a devastating economic impact on our industry, already struggling with capacity utilization issues because of the prolonged inability to import Canadian cattle. To understand this economic impact, it is important to know how our part of the meat packing industry is structured, and differentiate it from the portion of the industry that harvests fed cattle.

The meat packing industry is not monolithic, and small to mid-sized companies still play an important part, especially in the harvest of non-fed animals. We are all used to hearing about the dominance of a few extremely large companies, but those statistics pertain to the harvest of fed cattle – calves placed in a feedlot and harvested at a relatively young age.

The segment of the industry that harvests older – “non-fed” – animals is much less concentrated. According to data published by *Cattle Buyers Weekly* and other sources, 28 companies operate facilities in 18 states to harvest non-fed beef, and 24 of these have only a single location to produce non-fed beef, while the remaining four have between two and six locations. A list of these companies is attached to my testimony.

My company harvests both fed and non-fed beef, but most other firms in our industry do not. Those companies that are solely dedicated to older cattle would have

been especially hard-hit by the initial form of the final rule on Canada, which would have permitted OTM beef imports but not OTM cattle.

These impacts have been quantified in a study by Informa Economics, Inc., which estimated that permitting OTM beef but not OTM cattle would have cost our segment of the packing industry \$159 million over 12 months, and reduced income to U.S. cow producers by \$332 million in the same period. A copy of this study is attached to my testimony.

I have a high degree of confidence in the Informa study, and USDA officials with whom we have spoken have agreed. But there is a harsh reality that no study of this type can fully measure: If the final rule were to go into effect as published in December, some of the companies in our industry simply would not make it. The short-term impact of huge quantities of competing OTM beef – at the same time that these companies would be prohibited by their own government from obtaining supplies of OTM cattle – would be so great that some firms would be forced to close and exit the business.

Either plants would be permanently shut down, with the resulting loss of thousands of jobs in largely rural communities where alternate employment options may be few – or the plants would move into stronger hands, with larger companies swallowing smaller ones and the meat industry becoming that much more concentrated.

Neither of those prospects is a happy one. In fact, the more likely scenario is perhaps the one in which U.S. plants shut down and Canadian plants take their place. According to a report from a National Cattlemen's Beef Association trade team, Canadian slaughter capacity expanded 22% in 2004 and is projected to increase each year through 2007. According to NCBA, "as many as 25 plants [are] either being expanded, in the process of being constructed, or on the drawing board ..."

Lest my rhetoric sound alarmist, let me simply refer you to USDA's own analysis of its final rule, as published in the January 4, 2005, *Federal Register*: "As of mid-November 2004, a Canadian packer could buy a cow for about US\$17 per hundredweight and sell the processing-grade beef for about US\$123 per hundredweight ... In the United States, the cow would cost a packer about \$55 per hundredweight and the beef would sell for about \$125 a hundredweight."

The numbers have changed somewhat since this analysis was written, but the fundamental economic incentive has not. Older cows are much cheaper in Canada than in the United States. This price disparity is a logical outcome of the large buildup in Canadian cow supplies since its trade was largely cut off in the wake of its initial BSE case.

As a result of the price disparity, there is every economic incentive to harvest older cattle in Canada, and ship the meat to the United States. Simultaneous entry of both cattle and beef would tend to restore the two markets to equilibrium because the

additional demand for older Canadian cattle would tend to raise their relative price compared to U.S. animals of a similar age.

But that was not what the final rule stipulated. Instead, the final rule would have heightened the economic incentive to move capacity to Canada by permitting OTM meat imports but not OTM cattle imports. No segment of the U.S. meat packing industry favored this blatant inequity, but it is the smaller and mid-size companies in MEAT Fairness who would have been devastated. Unlike two of the largest U.S. meat packers, the members of MEAT Fairness do not operate facilities in Canada. These companies carry out all their activities in the United States, but some of them would not survive the regulations for Canadian imports as written.

Even under the current trade restrictions, our industry has been hurt and many opportunities have been missed. My company entered into a joint venture with the Iowa Quality Beef Supply Cooperative, a group of producers, to form Iowa Quality Beef LLC and harvest both fed and non-fed beef. The plant began operations in July 2003. Unfortunately, as a direct result of the Canadian BSE cases and resultant trade disruptions, our venture was compelled to cease operations in August 2004.

Once again, we thank Secretary Johanns for recognizing the need for a prudent review of the portion of the rule that treats OTM beef differently from OTM cattle. We must reiterate, however, that it is absolutely imperative that OTM cattle and beef access remain on the same track. It makes no sense to treat them separately. Under no circumstances should USDA allow regulatory drift to bring us all back to the situation we faced just a few weeks ago – the prospect of a flood of OTM beef that would hurt producers and packers alike, without any offsetting access to OTM cattle. Mr. Chairman, I respectfully urge this committee to insist that USDA avoid such an inequitable, devastating result.

A moment ago, I said OTM cattle and beef should remain on the same track. We believe that this common track must lead to an open market. We are not in favor of keeping the border closed. And we believe, from discussions with USDA officials, that most of the necessary preparatory work for a regulation to permit OTM cattle imports has already been done.

Therefore, we urge USDA in the strongest terms to move immediately toward a regulatory outcome that will recognize the safety of *both* OTM beef and OTM cattle. There is no basis to suggest – as some read the final rule to do – that OTM beef from Canada is safer than beef produced in the United States. That is nonsense. And if the risk is the SRMs, as some have suggested, then again I challenge anyone to tell this committee that SRM removal is somehow safer in Canada than in the United States. Once again, that is nonsense. And finally, if the concern is that somehow SRMs from cattle harvested here might enter the feed chain (despite our well-enforced feed ban), I would only remind you that this risk would also exist in Canada.

I have been speaking today for my own company, but the other members of MEAT Fairness would have similar things to say. They are geographically diverse, with operations in Wisconsin, California, South Carolina, Texas, Georgia, Minnesota, Nebraska, Washington, Nebraska and South Dakota. They take pride in producing high-quality, safe products while supplying skilled jobs in mostly rural areas.

These companies are not used to asking for help from Congress, but they do have a request today. Mr. Chairman, we respectfully ask that this committee advocate immediate, science-based regulatory action to restore normal trade between the United States and Canada for *both* OTM beef and OTM cattle. This step will also be critical to restoring all our trading relationships worldwide – not only in the highly publicized Japanese market but in other critically important markets like South Korea, Hong Kong and Taiwan.

Taking action based on science will also be the best way to maintain consumer confidence in beef. In taking this regulatory action, it is critical that beef and cattle move on the same track, and also critical that they move quickly.

Thank you again for the opportunity to testify. I would be happy to respond to your questions.